

Survey of Real Estate Trends

An Assessment by Senior Examiners and Asset Managers at Federal Bank and Thrift Regulatory Agencies

RESULTS OF THE JULY 1997 SURVEY

Highlights

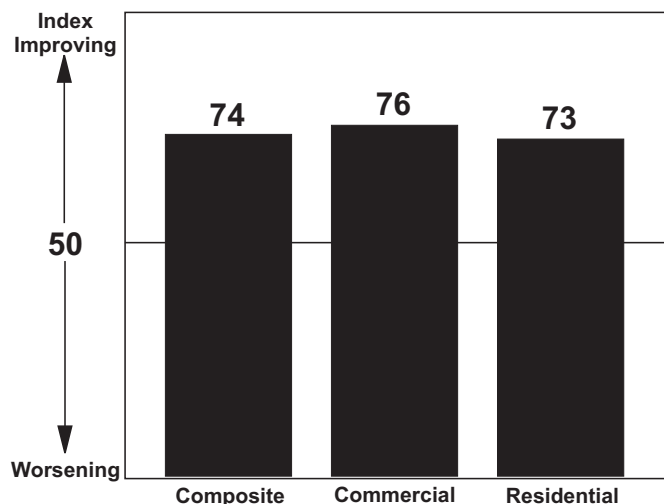
- In July, the national composite index, summarizing responses from 300 federal banking and thrift agency senior examiners and asset managers to the **Survey of Real Estate Trends**, reached 74, up from 71 in April and 68 a year ago. Every region showed an increase in the index from the previous survey except the Midwest which was essentially unchanged.
- Fifty-one percent of survey participants thought that conditions were “better” in residential real-estate markets compared with three months earlier, when questioned in July. In the previous survey, this proportion was 44 percent.
- Respondents are still generally positive about trends in commercial real estate. A larger proportion characterized the commercial market as “better” in the July survey (52 percent) than in the April survey (49 percent). More participants also noticed a tight market, lower vacancy rates and increasing sales of commercial properties.
- The West continued to maintain the highest level in both the residential index and the commercial index: 84 for residential and 82 for commercial.

Introduction

Four times a year the FDIC surveys senior examiners and asset managers from all federal bank and thrift regulatory agencies about developments during the prior three months in their local real-estate markets. Responses to the July 1997 **Survey of Real Estate Trends** showed that trends in local real-estate markets across the country were generally good. Steady rises in the national composite index have persisted since January of this year. The national indices for both the residential and commercial real-estate markets have shown the same trend.

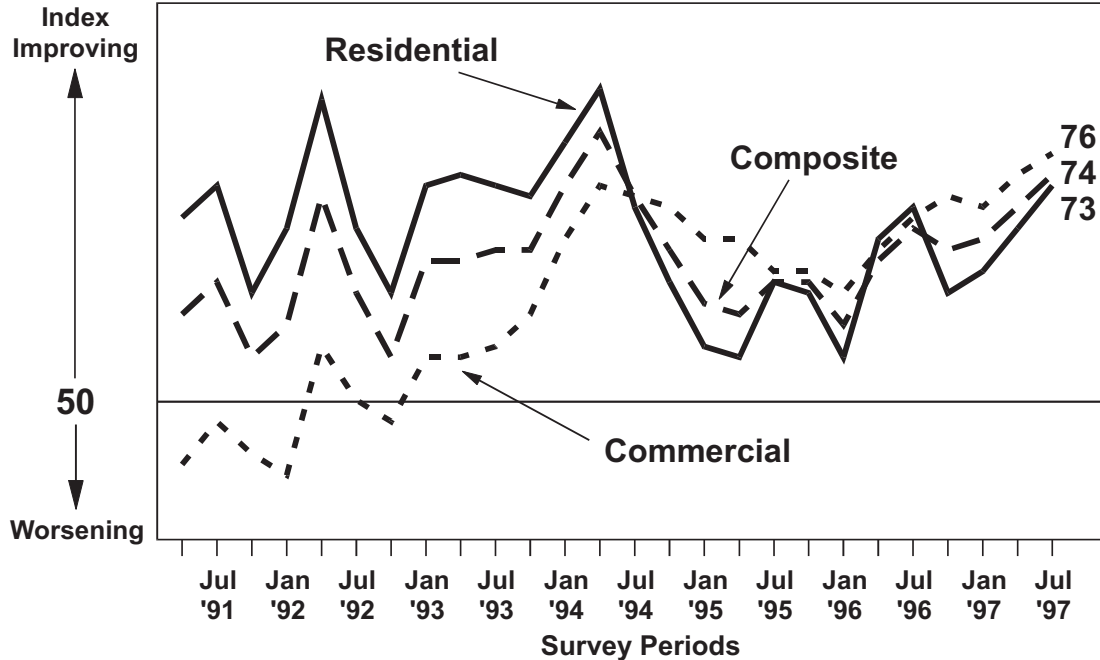
REAL ESTATE MARKET CHANGES OVER THE THREE MONTHS ENDING IN JULY 1997

Summary Indices of Opinions of Senior Examiners and Asset Managers



CHANGING ASSESSMENTS OF REAL ESTATE CONDITIONS

Summary Indices of Opinions of Senior Examiners and Asset Managers



National Overview: Summary Indices

The national composite index equalled 74 in July 1997, 3 points higher than calculated from the April survey and up from 68 a year ago. With the exception of the index for the Midwest (which was essentially unchanged), the index in each region also showed an increase from the previous survey in April.

The national residential index totaled 73 (up 4 points from April), and the summary index for commercial markets was 76 (basically the same as in April). With the exception of the Midwest, the residential index in each region increased from April, with the index in the West showing the largest rise (8 points). The commercial index in the West dropped 5 points, but other indicators in the West remained strong.

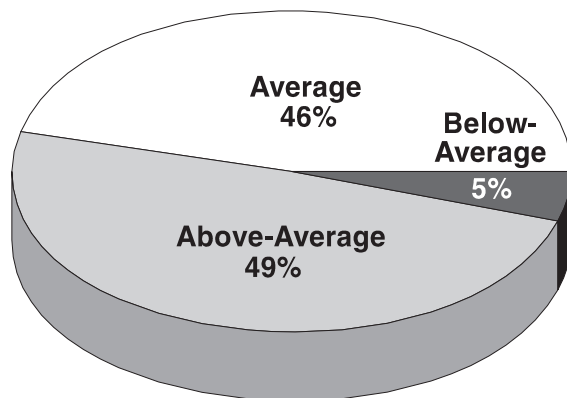
These indices summarize responses to the question of whether real-estate markets have improved, deteriorated, or remained the same during the prior three months. Values above 50 indicate that more examiners and asset managers at federal bank and thrift regulatory agencies thought conditions were improving rather than declining. Values below 50 indicate the opposite. A value of 50 indicates either a balance between those reporting improving *versus* worsening conditions, or agreement that conditions are unchanged.

Residential Real-Estate Markets

The proportion of the respondents characterizing the general direction of the residential market as "better" in July compared with three months earlier was

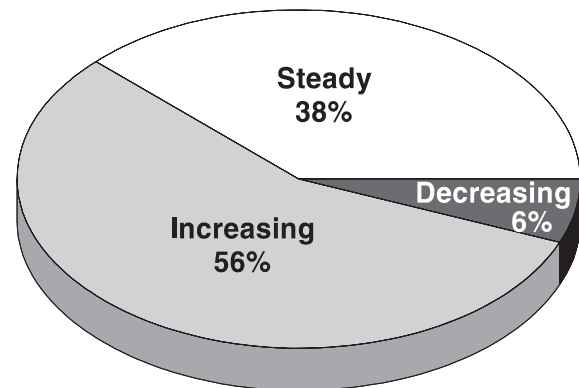
slightly more than one-half (51 percent), up from 44 percent in April. Respondents also noted the following trends during the three months prior to the July survey. The bulk of the respondents – 65 percent – characterized the housing market as “in balance.” The remainder was almost evenly divided between the proportion calling the market “tight” and the proportion citing “excess supply” – 16 percent and 18 percent, respectively.

**PERCENT OF RESPONDENTS IN JULY
REPORTING EXISTING HOME SALES
WERE . . .**



A larger proportion perceived the number of home sales to be “above average” when questioned in July (49 percent) than when questioned in April (41 percent). Consistent with the perception of stronger sales, more respondents in July characterized sales prices of existing homes as “increasing” – 56 percent compared with 54 percent in April. A majority of the respondents – 53 percent – reported that the current volume of new home construction was “above average” (up from 45 percent in April). Thirty-four percent described rental apartment construction as “above average,” up from 29 percent in April.

**PERCENT OF RESPONDENTS IN JULY
REPORTING EXISTING
HOME SALE PRICES WERE . . .**

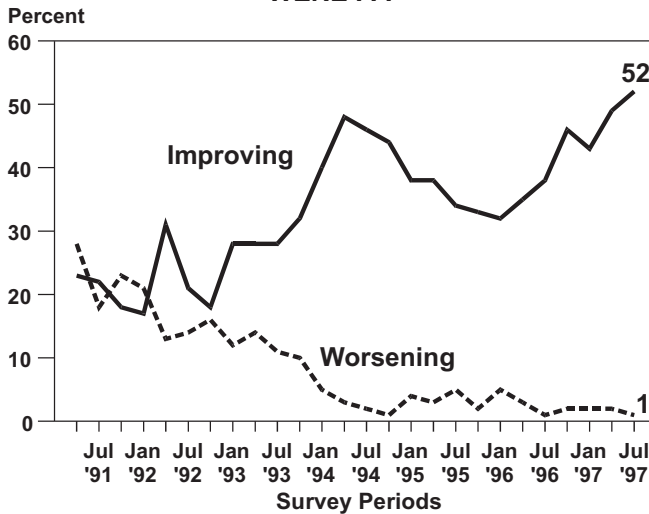


Data from the Bureau of Census and the National Association of Realtors support the survey results. They report that both new and existing 1-family home sales increased during 1997 from 1996. The median sales price of both new and existing 1-family houses also rose during 1997 from the fourth quarter. Finally, data for both housing starts and building permits increased from the end of last year.

Commercial Real-Estate Markets

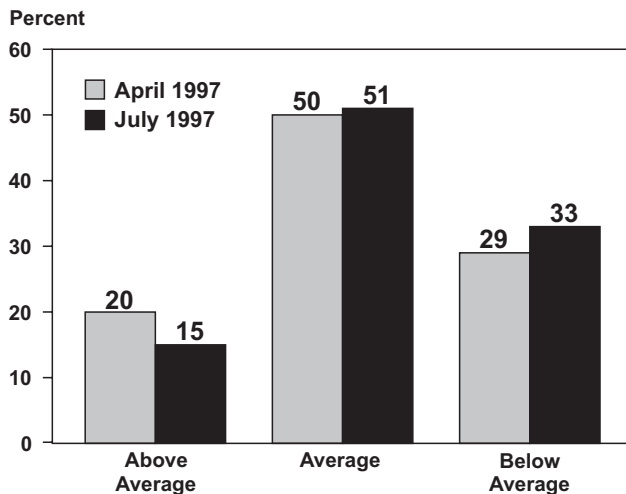
In July 1997, 52 percent of the respondents characterized the general direction of the commercial market compared with three months ago as “better.” Slightly fewer – 46 percent – thought the market was the “same.” In April, 49 percent responded “better,” and 47 percent the “same.” The respondents also saw dwindling excess inventories of commercial space. Nineteen percent considered the commercial market “tight,” up from 14 percent in April. Additionally, respondents thought that vacancy rates had fallen. The 15 percent of respondents who thought that vacancy rates were “above average” was down from 20 percent in April.

PERCENT OF RESPONDENTS REPORTING COMMERCIAL REAL ESTATE MARKETS WERE ...



Accordingly, when questioned about the frequency of rent concessions, 35 percent answered that these concessions were less frequent. In April, this proportion had been 31 percent. Additionally, more respondents thought that the demand for office space was higher: 44 percent compared with 40 percent

COMPARISONS OF PERCENT OF RESPONDENTS REPORTING VACANCY RATES IN COMMERCIAL REAL ESTATE MARKETS WERE ...



in April. The proportion citing “above-average” sales also increased to 34 percent from 27 percent. A higher proportion also cited increasing sales prices – 54 percent compared with 48 percent previously.

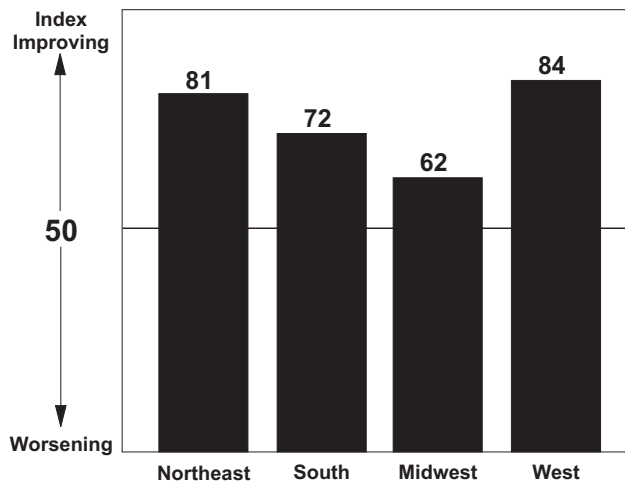
Statistics from CB Commercial/Torto Wheaton Research and F. W. Dodge also support some of these observations. Vacancy rates for industrial, office and retail buildings fell in 1996 from 1995. Additionally, the first-quarter increase in construction contracts for commercial and industrial buildings from the last quarter of 1996 was the second quarterly rise.

Regional Trends

The West's residential real-estate market continued to improve in July. With a residential index value of 84, the West held the highest level in this index of the regions. A substantial 71 percent characterized the general direction of this market as “better,” up from 58 percent in the previous survey. Thirty percent of the examiners and asset managers in that region characterized the residential real-estate market as in tight supply in the July survey as compared to 22 percent in the previous survey. The proportion noting “above-average” volume of home sales increased to 54 percent from 51 percent during the same period. Also, 63 percent of the respondents in the West noted increasing sales prices for existing homes, up from 53 percent.

Recent data from the Bureau of Census support some of these opinions. For example, the inventory of new 1-family houses for sale in the West in 1997 is much below 1996 levels. Additionally, according to the Bureau of the Census and the National Association of Realtors, both new and

RESIDENTIAL REAL ESTATE INDICES IN JULY 1997 BY REGION



existing home sales are stronger this year when compared with sales at the end of 1996.

In July, the commercial index in the West totaled 82, down 5 points from April. Most of the reason for this decrease was the drop in the proportion of the respondents who characterized the general direction of the commercial market as “better” in July compared with three months earlier – 65 percent, down from 75 percent in April. However, this most recent decline does not signal a downturn in commercial markets. First, the proportion of the respondents signaling that commercial markets were “better” had previously jumped 26 percentage points in April from January. All of the decrease in July from the “better” category switched to the “same” category, reflecting a continued strong market from April. Second, those reporting “tight” supply in commercial space rose to 26 percent, up from 21 percent in April. Consistent with this observation, the proportion citing “higher” demand for new office space increased to 58 percent from 51 percent in April.

Data and Method of Presentation

The survey results presented at the end of this report are summarized in indices calculated by Census regions for both residential and commercial real-estate markets. The national indices are an aggregation of the regional results.

The survey respondents included 300 examiners and asset managers experienced in evaluating real-estate loan portfolios or marketing real-estate assets. The FDIC respondents included its most senior experts from the Division of Supervision and from the Division of Resolutions and Receiverships. Senior real-estate examiners from the Office of the Comptroller of the Currency, the Federal Reserve System, and the Office of Thrift Supervision also participated in the survey.

The number of respondents in the survey is down considerably from the over-500 when the survey began in 1991. This decline reflects both the fact that the survey had included a large number of asset managers from the Resolution Trust Corporation, which closed at the end of 1995, and recent FDIC downsizing due, in part, to declining inventories of real-estate assets in receivership from failed banks.

The survey was designed and analyzed by the Division of Research and Statistics at the FDIC. Questions may be directed to Virginia Olin (202-898-8711) or Daniel Bean (202-898-3931). Geri Bonebrake, Donna Schull, and Lisa Peterson provided production support. Market Facts, Inc. conducted the survey.

**TO RECEIVE FUTURE COPIES OF THE
FDIC *SURVEY OF REAL ESTATE TRENDS* . . .**

**This *Survey* is conducted quarterly. If you would like your
name to be placed on the mailing list, please write to:**

FDIC
Public Information Center
801 17th Street, NW
Washington, DC 20434-0001

Survey of Real Estate Trends

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APPENDIX

SUMMARY INDICES OF REAL ESTATE TRENDS

	Composite	Commercial	Residential
U.S.	74	76	73
Northeast	79	77	81
South	75	78	72
Midwest	65	67	62
West	83	82	84

Improving market: Index Value > 50

Declining market: Index Value < 50

Notes to Users: The indices presented above were compiled for both residential and commercial real estate markets for the four major U.S. Census Bureau regions. Each regional index is a summary measure of the respondents' opinions about changes in market conditions in the past three months. The number of respondents by region was: Northeast (52), South (106), Midwest (84) and West (58). The national totals include a small number of responses that could not be classified by region.

In constructing the index, a value of 100 was assigned to responses indicating the conditions were “better,” and a value of 0 was given to responses saying conditions were “worse.” A “no change” answer was assigned a value of 50. Commercial and residential indices at the regional level are the sum of these values divided by the number of respondents in that region for that type of property.

Composite indices at the regional level are the weighted average of the residential and commercial indices for each region. The weights for each region are calculated using the value of construction permits for residential and commercial markets from 1982-1991. National indices are weighted averages of the comparable market measure of each region. The data for both the residential and commercial market weights are from the U.S. Bureau of the Census.

An index value of 50 indicates that the examiners and liquidators responding to the survey believe there has been no change in trends over the last three months. In this case, the opinion of respondents is either unanimous that there has been no change or is, on average, evenly distributed between those who believe the market has improved and those who believe the market has declined. An index above 50 indicates that the number of respondents reporting improvement exceeds the number reporting a worsening of conditions. An index below 50 indicates that the number of respondents reporting a worsening of conditions exceeds the number reporting improvement. The higher the index is above 50, the greater the preponderance of respondents who reported improvement over the number who reported a worsening of conditions.

Census Regions:

Northeast — Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont

South — Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia

Midwest — Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

West — Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

OVERVIEW

REAL ESTATE TRENDS

COMMERCIAL MARKETS

“What would you say is the general direction of the commercial market now compared with three months ago?”

	A Lot Better	A Little Better	Same	A Little Worse	A Lot Worse	Not Sure	INDEX*
All	8%	44%	46%	1%	—	—	76
Northeast	10%	46%	42%	2%	—	—	77
South	6%	52%	42%	1%	—	—	78
Midwest	5%	32%	61%	3%	—	—	67
West	17%	48%	35%	—	—	—	82

RESIDENTIAL MARKETS

“What would you say is the general direction of the residential market now compared with three months ago?”

	A Lot Better	A Little Better	Same	A Little Worse	A Lot Worse	Not Sure	INDEX*
All	7%	44%	46%	4%	—	—	73
Northeast	8%	57%	33%	2%	—	—	81
South	4%	44%	48%	4%	—	—	72
Midwest	2%	28%	63%	6%	—	—	62
West	18%	53%	28%	2%	—	—	84

CURRENT REAL ESTATE CONDITIONS

COMMERCIAL MARKETS

“In general, how would you characterize the commercial real estate market?”

	Tight Supply	Supply and Demand Roughly in Balance	Excess Supply	Not Sure
All	19%	60%	20%	1
Northeast	19%	44%	38%	—
South	21%	61%	17%	1
Midwest	12%	74%	12%	1
West	26%	52%	20%	2

RESIDENTIAL MARKETS

“In general, how would you characterize the residential real estate market?”

	Tight Supply	Supply and Demand Roughly in Balance	Excess Supply	Not Sure
All	16%	65%	18%	1
Northeast	14%	53%	33%	—
South	9%	77%	15%	—
Midwest	18%	66%	15%	1
West	30%	54%	14%	2

NOTE: Percentages are calculated by dividing the number of responses in each category within each region by that region's total number of respondents. Numbers may not sum to 100 due to rounding error.

* - See page 8 for an explanation of the Index.

KEY MARKET INDICATORS

RESIDENTIAL

“How would you characterize the current volume of home sales?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	4%	45%	46%	5%	0%	—
Northeast	2%	29%	61%	8%	—	—
South	3%	50%	46%	1%	—	—
Midwest	4%	46%	39%	10%	1%	—
West	7%	47%	42%	4%	—	—

“How would you characterize sales prices of existing homes?”

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	3%	53%	38%	6%	—	—
Northeast	2%	39%	47%	12%	—	—
South	2%	50%	45%	3%	—	—
Midwest	1%	65%	31%	4%	—	—
West	7%	56%	30%	7%	—	—

“How would you characterize the current volume of new home construction?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	7%	46%	41%	6%	—	0%
Northeast	—	31%	49%	18%	—	2%
South	9%	53%	36%	2%	—	—
Midwest	7%	50%	38%	5%	—	—
West	9%	39%	47%	5%	—	—

“How would you characterize the current volume of rental apartment construction?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	7%	27%	41%	21%	2%	2%
Northeast	—	6%	35%	47%	8%	4%
South	13%	43%	34%	9%	—	1%
Midwest	2%	22%	46%	24%	1%	4%
West	7%	23%	53%	14%	4%	—

NOTE: Percentages are calculated by dividing the number of responses in each category within each region by that region's total number of respondents. Numbers may not sum to 100 due to rounding error.

KEY MARKET INDICATORS

COMMERCIAL

“How would you characterize vacancy rates in commercial real estate?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	1%	14%	51%	29%	4%	0%
Northeast	4%	31%	42%	15%	8%	—
South	1%	8%	54%	35%	1%	1%
Midwest	—	6%	61%	30%	4%	—
West	—	22%	39%	32%	7%	—

“How would you characterize the volume of sales of commercial real estate properties?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	4%	30%	57%	6%	—	4%
Northeast	2%	23%	58%	13%	—	4%
South	4%	39%	52%	2%	—	4%
Midwest	4%	21%	63%	7%	—	5%
West	4%	32%	56%	7%	—	2%

“How would you characterize commercial real estate sales prices?”

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	1%	53%	43%	1%	0%	2%
Northeast	4%	35%	60%	—	—	—
South	1%	55%	41%	—	—	3%
Midwest	—	56%	40%	1%	—	4%
West	—	59%	35%	2%	2%	2%

“How common are rent concessions now compared with three months ago?”

	Much More Frequently	Somewhat More Frequently	About The Same	Somewhat Less Frequently	Much Less Frequently	Not Sure
All	—	2%	57%	31%	4%	6%
Northeast	—	2%	56%	35%	—	6%
South	—	2%	54%	31%	6%	7%
Midwest	—	1%	65%	24%	1%	9%
West	—	4%	48%	39%	9%	—

“How would you characterize the demand for new office space in your area now compared with three months ago?”

	Much Higher	Somewhat Higher	About The Same	Somewhat Lower	Much Lower	Not Sure
All	2%	42%	53%	2%	—	0%
Northeast	2%	42%	50%	6%	—	—
South	2%	41%	56%	1%	—	—
Midwest	1%	37%	59%	1%	—	1%
West	4%	54%	39%	4%	—	—

NOTE: Percentages are calculated by dividing the number of responses in each category within each region by that region's total number of respondents. Numbers may not sum to 100 due to rounding error.